

Victorian Co-operative News

Volume 5 Number 2

April-May 1999

Victorian co-ops are slowly responding to the need to adapt new Rules to comply with the provisions of the Co-operatives Act 1996.

At the 15 March 1999 only 35 co-operatives had registered

new rules and about another 30 have had their Rules approved but have not yet submitted these for registration. The deadline for registering new Rules is 1 October 1999 - less than six months away.

Co-operatives have been given a two year period to change their Rules.

The Office of Fair Trading and Business Affairs (OFTBA) has worked hard to facilitate

slow to respond to the generous time period.

Approximately 60% of co-operatives have elected to take up the Model Rules.

If co-ops have not changed their Rules by the due date, this

the adoption of new Rules. There have, for example, been statewide mailouts in October 1997, October 1998 and February 1999.

The Co-operative Federation of Victoria Ltd is disappointed that co-operatives have been so

non-compliance may result in penalty and/or prosecution. The Registrar will issue a letter of non-compliance with a set period for the co-operative to comply. Continued failure to comply will mean that the OFTBA will decide which Model Rules automatically apply for these co-ops.



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Ruling Deadline
1 October 1999



A membership recruitment and retention strategy is based on providing and continuously improving services to members. The test of service relevance is usage and what members tell us about these services.

What persuades a co-operative to join and

expectations of the Federation.

The services of the Federation are all relevant to membership recruitment and retention e.g. seminars, the Co-operation Awards, publications, Victorian Co-operative News, co-operative advocacy and legislative advice.

remain a member of the Federation will differ depending on changing circumstances, what services are provided by the Federation, how the Federation projects itself and

At its meeting on 18 February 1999 the Federation's board appointed a committee with John Gill, Vern Hughes and David Griffiths. The committee will meet approximately five times and present a final report to the board in August 1999.

Responses

Members are invited to contribute their ideas.

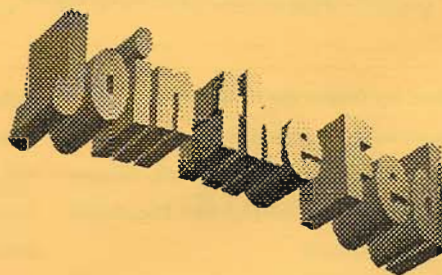
In the short-term, Federation Secretary Tony Gill is inviting large co-ops and credit unions to become members.

This involves forwarding a membership kit, follow-up telephone calls and visits, if necessary, to discuss membership.

The need to adopt new Rules is a challenge and an opportunity for all co-operatives.

In adopting new Rules, co-operatives have experienced difficulties in resolving active membership.

How, for instance, does a government funded health service define active membership? Is it the use of the service or attendance at meetings or the number of visits to specialist clinics.



Co-operatives have also had to come to terms with the differences of being a non-trading co-operative with shares or a trading co-operative with shares. Other co-operatives have had to come to terms with the issue of closed shop membership.

In adopting new Rules co-operatives have real choices about the way their co-op functions. The best way to resolve these choices is to

get the assistance of the Co-operative Federation of Victoria Ltd - after you have joined.

On the 30 March 1999 the Co-operative Council of Australia attended a Ralph Committee forum on co-operative issues.

A range of industry representatives were in attendance.

The CCA was subsequently invited to join the influential Grower Owned Sugar Mills Group to lobby politicians and Treasury officials. CCA Chairman Jim Howard has commented: "The reception was better than anticipated and it appears that we may be able to work together



with government to substantially achieve the objectives of the co-operative movement."

Meanwhile, the Review of Business Taxation's Discussion Paper 2: Building on a Strong Foundation has argued "business or

investment income should be subject to the same overall level of taxation whether it is derived directly by an individual or through an entity such as a partnership, co-operative, company or trust."

It is further argued: "In order not to distort the cost of capital used to evaluate alternative investments, business tax arrangements should avoid differentially taxing either the type of entity, or entity financing alternatives or the type of income distribution from entities. "

Agribusiness Seminar

The second Monash University-Co-operative Federation of Victoria Ltd agribusiness directors seminar was held on 27-28 March 1999 at the Mt Eliza.

There were 58 participant with 37 representatives from 19 co-operatives - Victoria (12), N.S.W. (1), N.Z. (2), S.A. (1) and W.A. (2). Victorian co-ops represented were Bonlac Foods, the CFV, Commercial Egg Producers, Consolidated

Herd Improvement Services, Genetics Australia, Murray Goulburn Co-operative Co Ltd, Northern Herd Development Co-operative, Herd Improvement Co-operative (Maffra) Ltd, Pivot Lt, Rupnorth Co-operative Ltd, Warrnambool Cheese and Butter Co-operative Ltd and

Warrnambool Co-operative Society Ltd.

The keynote speaker was the internationally renowned co-operator Edgar Parnell who addressed corporate governance.

There was also a case study analysis of Pivot Ltd with the stylish assistance of its Chairman John Watson.

The success of the Seminar is a tribute to the leadership of Monash's Dr. Lawrie Dooley and Federation director John Gill.



Central Highlands Co-operative Ltd

The co-operative was established in 1986 - formed by members of the defunct Ballan and Fiery Creek Co-operatives.

The 27 member co-operative draws its membership from farmers in the Ballan-Meredith and Ararat, Beaufort and Streatham districts.

Central Highlands has historically been a farmers buying co-operative, securing discounts on the purchase of farm merchandise and services through trade accounts and the annual tendering for supplies such as fuel, fertilisers, wool packs etc.

Currently the co-operative is examining the potential for the direct marketing of its members' wool clip, having successfully completed stage one of a three

Reinventing Co-operation - the challenge of the 21st century is a revised, updated and expanded newly-titled edition of Edgar Parnell's 1995 best selling Reinventing the Co-operative.

Much of the original material in the first edition has been retained. The March 1999 edition has new and expanded chapters



Brief profiles of two new members.

phase development and implementation program. The co-operative's active membership provision requires each member to be actively engaged in the business of primary production and all bulk fuel must be purchased through the co-operative.

Mt. Murrindal Co-operative Ltd

The co-operative limited was established in 1983 as a community settlement co-operative comprising nine

dealing with why we need to reinvent co-operation, accounting for success in co-operatives, making



adults owning and living together on a fifty-hectare grazing property situated north of the small East Gippsland township of Buchan.

There is a community house and five family-sized dwellings clustered together in the form of a hamlet. Shared facilities include a large organic vegetable garden, organic orchards and a flock of free-range chickens - enabling the co-operative to produce a lot of its own food. The co-operative has a regular monthly meeting at which a consensus style of decision-making is used. There are also regular policy-development meetings. The co-operatives states: "As a group we are not bound by any particular over-riding philosophy. The idea of living here is simply to enjoy each other's company in a beautiful environment far from the stresses and strains of modern city life."

federalism work and explains how co-operatives can best make use of subsidiaries. The new edition has an index which was missing from the first edition and the number of pages has increased from 256 to 312.

Reinventing Co-operation is available from the Federation.

AGRICULTURAL CO-OPERATIVES AND VALUE-ADDING

John Gill*



In the October/November edition of the Victorian Co-operative News, I reviewed a book, *Make No Small Plans: A Co-operative Revival For Rural America* by Lee Egerstrom.** Egerstrom argues for co-ops to undertake value adding of farm products in rural areas to revive the rural economy.

Rural America is suffering the same problems as rural Australia with a falling demand for farm labour having a multiplier effect leading to the withdrawal of services in small towns and a further decline in population.

There is no doubt that value adding of farm products in the bush would benefit rural Australia, and our exports, to the extent that processed high value products would replace the export of low value raw commodities. However, I question whether farmers need to own value adding enterprises to receive a reasonable return for their labour.

Farmers have traditionally complained that the prices of their commodities constitute a far too low proportion of the final price paid by the consumer. Figures are regularly trotted out showing that the cost of raw wool in a suit, or the cost of wheat in a loaf of bread is only a minute proportion of the retail price. The inference is that the farmer is being ripped off and huge profits are being earned by operators further along the line to the consumer. The paper *Agricultural Marketing Co-operatives: Opportunities and Dilemmas* commissioned by the NSW Registry of Co-operatives, and prepared by Michael O'Keefe and Dr Felix Movondo (Agribusiness Research Unit, Monash University) states "the value of the raw commodity now only accounts for 20 cents of the consumer food dollar. Staying in the commodity business is not an attractive option."

SIMPLISTIC VIEW

This is a simplistic view and takes no account of the costs involved in the later stages. One might argue that BHP should produce motor cars because the cost of steel in cars is less than say 1% of the car's selling price. In fact, it is probably more profitable for BHP to export iron ore and coal to Japan than it is to convert those raw materials to steel in Australia.

The point here is that it is not necessary to control the entire process from start to finish, but for each step to extract a profitable price for its services/product. This very much depends on the market power of each participant. Individual farmers are in a weak position and have looked to co-ops to provide collective power to extract profitable prices from a few large buyers.

The capital cost of value adding varies of course with the type and size of the enterprise, but at the top end it is very considerable. In recent years Bonlac has spent \$150 million on a new milk processing plant at Darnum in Gippsland. It is my view that farmers really do not want to be involved in value adding but want to farm, and given the choice, farmers would prefer to invest their scarce capital resources in developing their farms in preference to investing in value adding enterprises.

NEW CO-OPERATIVE

The formation of a new co-operative, Casmark Producers Coop, with beef and lamb producer members in Victoria, NSW and SA and an alliance with the Dandenong meat processor, Casticum Brothers, breaks new ground with the prospect of giving farmers the benefits they look for in value adding without the capital cost. For an alliance to work each party must receive benefits and mutual trust is essential. In this case the farmers are expecting premium prices and Casticum are expecting an assured supply of quality livestock. Mutual trust in an industry where mistrust has been the norm may be more difficult and the test will come when markets move contrary to the parties' expectations and seasons turn bad. However Casticums have a good reputation and if farmers realise that marketing arrangement must change if they are to survive, the project will have good prospects for success. I am very excited by the project and wish it the success it deserves.

*John Gill is a director of the Co-operative Federation of Victoria Ltd.

***Make No Small Plans* is published by Lone Oak Press Ltd and is available from the Co-operative Federation of Victoria Ltd for \$28 plus \$5 postage.



Open Co-operation With the UK's CWS

The UK Co-operative Wholesale Society was established in 1863 as a wholesaler for co-operatives. For the year ended 10 January 1998, the CWS sales exceeded three billion pounds. The co-operative has over 50,000 employees and 500,000 members. Today the CWS operates:

- 600 stores
- the largest chain of independent travel agents with more than 250 branches.
- the Co-operative Insurance Society serving 3.5 million families.
- the Co-operative Bank
- the largest funeral undertaker with 300 outlets and 50,000 funerals each year.
- The UK's largest commercial farm operation – owning 28,000 acres and managing 23,000 acres on behalf of other landowners.
- Co-op Eye Care with 57 practices.
- the Priority Motor Group with 26 outlets.
- Associated Co-operative Creameries – a major dairy operator in bottling and packing milk.

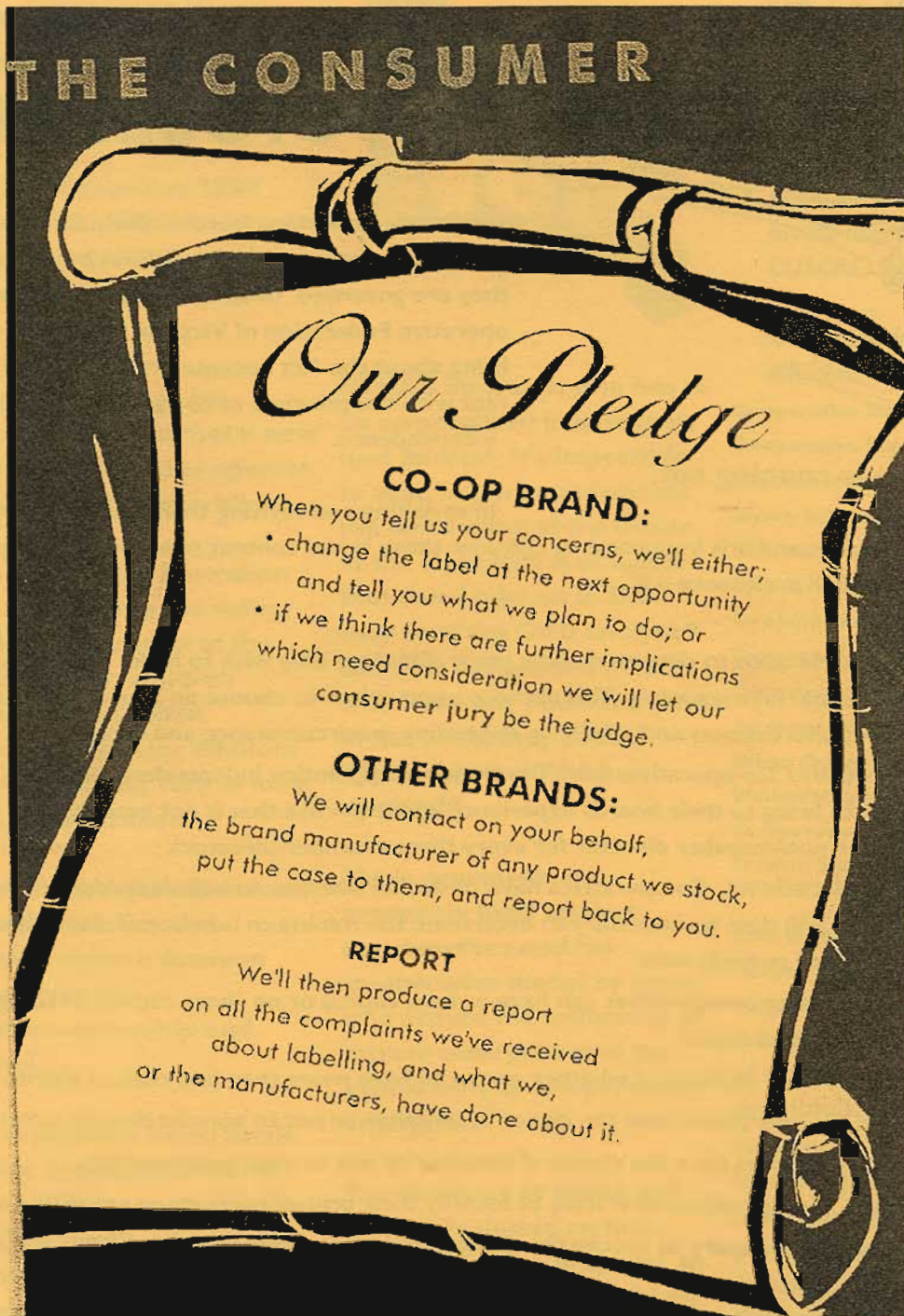
What is interesting about the CWS today, however, goes beyond its scale. It is its open and explicit advocacy of the co-operative difference and its commitment to ethical trading. It is a large co-operative that is not afraid to trade on its co-operativeness – to affirm that there is a co-operative difference. This is a lesson for Australia's co-operative movement which is ambivalent about its co-operativeness. It is a tragedy of co-operation that some co-operatives are ashamed of their co-operativeness – preferring to leave philosophy and principles in the closet.



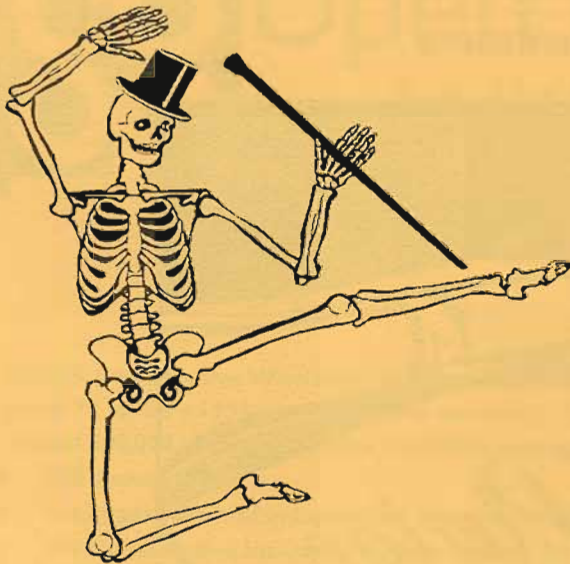
In 1987 the CWS switched its stock of aerosols from CFCs to alternative gases. In 1992 the CWS was the first retailer in the UK to ensure its sanitary protection products carried prominent warnings about Toxic Shock Syndrome. In 1992 the Co-operative Bank announced its ethical policy – how the bank's money would be invested. In 1994 the CWS started labelling foods which had been produced using genetic modification and it is the only retailer to label cheese which has been produced using genetic modification. In 1996, the CWS identified the presence or absence of animal ingredients in its products. In 1997, CWS was the first retailer to ban alcopops. In 1998, Co-op Travelcare introduced the policy of open information – making the Agent's Gazetteer available to customers. The Gazetteer is an independent 'warts and all' guide to resorts and hotels.



Co-operative Wholesale Society Pledge to Consumers



The CWS has 4500 of its own product lines in its stores and has committed itself to open and honest labeling of these products. The CWS has identified seven deadly sins of product labeling – rose tinted spectacles, the grand illusion, the half truth, weasel words, the hidden truth, the bluff and the small print. In 1998, the CWS established a Consumer Jury of 10 customer members to adjudicate on customer complaints with the power to change the labels on co-op products if the jury decides consumers are being misled.



RULING CHOICES BEFORE 1 OCTOBER 1999

A critically important feature of the Co-operatives Act 1996 is the greater choice it offers co-operatives in how they are governed. Greater choice underpinned the Co-operative Federation of Victoria Ltd's work in helping bring about the Act because greater choice is consistent with the principle of co-operative autonomy and independence.

Time is running out!

In revisiting and revising their rules, co-operatives now have a number of choices and it is important to consider these in the context of individual co-operative circumstances and member preference e.g.

Directors Co-operatives need to determine how many directors they wish to have. There is a minimum of two natural persons and no maximum. This allows co-operatives to choose an appropriate balance between representation, effectiveness and efficiency depending on circumstance and choice.

Independent Directors Co-operatives have the choice of appointing independent directors. This will enable co-operatives to bring to their boards experience and expertise that is not available from the members. There can be one non-member director for every three member-directors.

Membership Qualifications. Co-operatives have to decide whether to have individual, body corporate or both as members. It will then be necessary to determine the minimum number of shares and whether there will be entrance and periodic fees.

Shareholding Non-trading co-operatives can have a share capital or no share capital. Trading co-operatives must have a share capital.

Shares. Co-operatives have a choice of whether or not to have more than one class of shares.

Deputy Directors Co-operatives have the choice of whether or not to appoint deputy directors.

Proxy Voting. Co-operatives have the choice of whether or not to have proxy voting.

Primary Activities. Co-operatives now have to identify their primary activity or activities.

Active Members. It is necessary to specify the way and extent a member is required to be active.

Members of the Federation have access to the services of the Federation's Consultant, Tony Gill. Tony has had a significant role in the development of the Co-operatives Act 1996. Members are also provided with a free Rules checklist and a series of legislation information sheets. Non-members do not have access to the consultancy services of Tony Gill. They can, however, purchase copies of the legislation information sheets from the Federation which cost either \$10 or \$20 each. The Rules checklist is not available to non-members.

Co-operatives have until 1 October 1999 to change their rules to conform with the Co-operatives Act 1996. Time is running out!

Should we care about NRMA Insurance and why?

On the 25 February 1999 the boards of NRMA Limited and NRMA Insurance Limited agreed to recommend to members that the insurance business be demutualised and that a new mutual be formed to operate the road service operations.

According to the Australian Financial Review the voting on demutualisation at the board was an eight-all deadlock and NRMA president Nicholas Whitlam used his casting vote in favor of demutualisation.

Co-operatives, credit unions, friendly societies and mutuals share a common philosophy of member-ownership and control.

The arguments being made for the demutualisation of NRMA Insurance are familiar i.e. the benefits of demutualisation are claimed to be greater efficiency, profitability and dividends.

In All roads lead to easy NRMA vote (Sunday Herald Sun 28 February 1999, p 51) Terry McCrann wrote:"



NRMA's insurance arm has to be corporatised in everyone's best interest. It's impossible to even begin to understand the functioning of the brains of the eight NRMA directors that voted against it. Did they read the CSFB analysis? Did they understand it? Do they have any understanding of the world they live in? Which decade? Which century?"

These arguments are commonly used against co-operatives and the co-operative model by those who espouse the rationality of private enterprise and the irrationality of co-operative enterprise.

The members of NRMA will ultimately decide on their demutualisation proposal. In the meantime, we should all be concerned.

David Griffiths

Mutuality Workshop

There were 28 participants at the Edgar Parnell Making Mutuality Work Workshop on 29 March 1999 at CUSCAL, Box Hill.

Co-operatives represented were

Co-operative Energy Ltd,
Co-operative Purchasing Services Ltd, Genetics Australia Co-operative Society Ltd, Northcote Rental Housing Co-operative Ltd, North East Victoria Forest Growers Co-operative Ltd, Mirboo North Newspaper Co-operative Ltd, Ruach Community Co-operative Ltd, Southern Energy Co-operative Ltd, Urban Camp Co-operative Ltd, Wathaurong Aboriginal Co-operative Ltd and Waverley Trading Society Ltd.

The workshop addressed issues such as reinventing co-operation, real needs of members, open acceptance of weaknesses, delivering tangible benefits, true co-operation, stakeholder groups, abdication to professional managers and priorities based on competencies of managers. Copies of notes used by Edgar Parnell for the workshop are available for members of the Federation.

The Keep Australia Beautiful Rural Pride Awards were announced in Ballarat at the end of February, 1999. The Mirboo North Times won the State Media Award - Community Newspaper. Obviously winning such an award brings a great sense of achievement to all the people involved with our newspaper. At times like this it is good to reflect on the effort that a large number of people have contributed to ensure such success.

The story of the Mirboo North Times began like that of many small newspapers - as a locally run paper in 1890. The parallel with dozens of small local papers stayed the same for many years - being sold in the late 1960's to a regional chain of newspapers, ceasing production locally, no longer having a local reporter, decreasing sales and revenue and finally becoming a loss making enterprise by the early 1990's. By 1995 it began to be rumoured that the paper would cease production entirely - again like so many small rural papers. By this stage circulation was barely above 300 per week.

But this is where Mirboo North's story becomes different. In mid 1995 it was suggested to the local Community Association (MCA) that a way to save the newspaper would be to enter a partnership with the regional newspaper chain that owned the Times. After some extended negotiation with the owners a partnership was established in January 1996.

A sub committee of the MCA undertook all the journalistic roles in the paper with the printing and advertising being done by the owners. While this improved the financial situation, it didn't allow the paper to return to profitability and by early 1997 the owners announced their intention to close the paper. The Mirboo North community held a public meeting and decided to form a co-operative and continue production.



It took us about 6 weeks to gather together the finances and equipment needed to start production. We started with begged and borrowed computers, cutting and pasting for the layout, photocopying (A3) and hand folding to produce 300 copies of a 12 (A4) page newspaper that sells for 50 cents.

We formed our co-operative in July 1997 and have gone from strength to strength. We have around 100 shareholders and more than 50 people are involved every week in writing, taking photos, gathering

advertisements, typing, folding, running the co-operative etc.

We are profitable, have purchased 2 new computers and upgraded 1 other, we have a Risograph to do the printing and have a scanner, 2 good printers, fax machine, a borrowed photocopier, and 2 cameras.

The Co-operative is continually working on issues such as policies etc. It is the aim of our co-operative to embrace the principles of co-operation.

We fully involve all the shareholders in major decision making (for example we have held 3 well attended meetings to develop our policies).

We aim to return benefit to our community (we sponsor a number of events open to the community such as guest speakers as well as supporting young people through awards at the local school). We aim to explore related enterprises and support other co-operatives establishing (for example we are exploring being an Internet access point and already have won a tender to be the local shire information point and we are supportive of a local banking co-operative that is currently being established).

The author of this article is Neil Smith, a director of the Mirboo North Newspaper Co-operative Ltd.

Sir John Monash Gold Medal

This year's award which was presented at the Agribusiness Co-operative Directors Seminar held at the Mt. Eliza Business School over the weekend 27-28 March 1999 was jointly won by Peter Stewart, Maffra Herd Improvement, and Genetics Australia and Trevor Leis, United Milk, Tasmania.

Criteria

The five key selection criteria for the award are:

Sustained and substantial contribution to the ideals of the co-operative movement.

Demonstrated leadership and policy innovation.

Contribution to sustained growth and profitability of a co-operative.

Demonstrated capacity to co-operate with internal and external stakeholders.

Demonstrated capacity to balance a market oriented, global vision while still meeting local member needs.



Peter Stewart has served as a co-operative director for 35 years including five years as Chairman of Maffra Herd Improvement and six years as Chairman of Genetics Australia.

In the late 1980's as Deputy Chairman of Genetics Australia predecessor, Victorian Artificial Breeders, he played a key role in bringing about a major change in the direction of the co-operative to address problems it was experiencing in the market. Later on, Victorian Artificial Breeders went on to take over the Queensland Government's Artificial Breeding Business and change its name to Genetics Australia with a restructured board to reflect its expanded operations. In 1992 Peter resigned as a director of Maffra Herd Improvement when he was elected Chairman of Genetics Australia.

Trevor Leis had been a director of United Milk Tasmania for many years before he was elected Chairman in 1994. He came to the position when United Milk was facing receivership but under his leadership the position was turned around through the

closure of uneconomic plants, heavy investment in research which led to some world first results, growth of the milk supply and investment in new state of the art plant.

His achievement in leading a rescue operation involving heavy rationalisation and cost cutting and then moving onto rapid growth was outstanding.

Trevor Leis recently retired as a director of United Milk after negotiating a very satisfactory merger for its members with Bonlac.

Both Peter Stewart and Trevor Leis have made outstanding contributions to the co-operative movement and are worthy winners of the prestigious Sir. John Monash Gold Medal.

John Gill



"Businesses, individuals, communities and governments are all seeking new and innovative solutions to a range of challenges including: globalisation; employment creation and retention; business competitiveness and entrepreneurship; effective and efficient public service provision; economic, social, rural and regional dislocation.

"There has been limited appreciation of the contribution which co-operatives, mutuals and other member based organisations can make to solving these problems.

The N.S.W. Minister for Fair Trading, Mr Jeff Shaw, announced at Bathurst on 26 February 1999 that a Centre for Co-operative Research and Development (CCRD) was being established.

Two universities will jointly host the CCRD and also contribute significant funds - the University of Technology Sydney (UTS) and Charles Sturt University at Bathurst. It is hoped that Monash University will also link with the new CCRD.

The N.S.W. Government has committed a total of at least \$900,000 over three years to

While opportunities exist for new and creative uses of the co-operative and mutual form of organisation it is also apparent that established co-operatives have many training, research, consultancy, legal, business and management needs that are going unanswered. Similarly, advisers in the areas of accountancy, legal, finance, business, public policy and rural, regional and community development stand to benefit from the establishment of a centre specializing in co-operative and mutual structures. The key objective is the further development and promotion of co-operatives and similar member based or mutual organisations through Australia's only dedicated co-operative research centre."

Source: Call for Expression of Interest in establishing a Centre for Co-operative Research and Development, N.S.W. Government, 1998

assist with the establishment of the CCRD. This includes two seconded staff - Gary Cronan and one other. The CCRD will be involved in three primary

activities - research, teaching and training and development, promotion and consultancy.

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Ruling Deadline
1 October 1999